



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Report of the auditor-general to the North West provincial legislature and the council on the Moretele Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Moretele Local Municipality set out on pages xx to xx, which comprise of the statement of financial position as at 30 June 2018, and the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Moretele Local Municipality as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2017 (Act No. 3 of 2017) (Dora).

Basis for qualified opinion

Property, plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence for motor vehicles amounting to R15 605 171 included in property, plant and equipment as management did not maintain an accurate asset register. I was unable to confirm these motor vehicles by alternative means. Consequently, I was unable to determine whether any further adjustment relating to property, plant and equipment of R1 073 342 118 as disclosed in note 4 to the financial statements was necessary.

Receivables from exchange and non-exchange transactions

4. I was unable to obtain sufficient appropriate audit evidence for the impairment of receivables from exchange and non-exchange transactions, as the municipality did not review the impairment model used at the end of the financial year to determine whether the assumptions made were still appropriate as required by GRAP 104, *Financial instruments*. I could not confirm management's assessment of impairment by alternative means. Consequently, I was unable to determine whether any adjustments relating to the receivables from exchange and non-exchange transactions of R29 824 595 and R21 455 782 as disclosed notes 7 and 8 to the financial statements, respectively, or the related impairment loss of R106 852 344 as disclosed in note 28 to the financial statements were necessary



Irregular expenditure

5. I was unable to obtain sufficient appropriate audit evidence to confirm that all irregular expenditure was identified and disclosed as required by section 125(2)(d) of the MFMA due to bid documents for unsuccessful bidders being destroyed in a fire subsequent to the financial year end and due to the non-submission of information for a restatement to the corresponding figure for irregular expenditure. I was unable to confirm the irregular expenditure disclosed by alternative means. In addition, the municipality did not implement adequate internal control systems to identify and record all instances of irregular expenditure. This resulted in the irregular expenditure disclosure being understated by R4 315 988. However, the full extent of the misstatement identified could not be quantified as it was impracticable to do so. The municipality also did not include particulars of all irregular expenditure in the notes to the financial statements. Consequently, I was unable to determine whether any further adjustment relating to the irregular expenditure of R906 046 224 as disclosed in note 47 to the financial statements was necessary.

Context for the opinion

6. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
7. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

9. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material losses – impairment of assets

10. As disclosed in note 28 to the financial statements, an investment of the municipality with VBS Mutual Bank of R51 057 065 was impaired due the bank being placed under curatorship.

Material underspending of the water services infrastructure grant

11. As disclosed in note 22 to the financial statements, the water services infrastructure grant was underspent by an amount of R17 526 433 due to delays with the commencement of the project.

Unauthorised and fruitless and wasteful expenditure

19. As disclosed in note 45 to the financial statements, the municipality incurred unauthorised expenditure of R132 079 448, mainly due to impairment losses not budgeted for.
20. As disclosed in note 46 to the financial statements, the municipality incurred fruitless and wasteful expenditure amounting to R7 419 180, mainly due to payments for assets not used by the municipality and excessive interest paid on a contract with a supplier.



Uncertainty relating to the future outcome of exceptional litigation

21. With reference to note 37 to the financial statements, the department is a defendant in a number of lawsuits. The municipality is opposing the claims as per their legal counsel's advice. The ultimate outcome of the matters cannot currently be determined and no provision for any liability that may result has been made in the financial statements.

Other matters

12. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited disclosure notes

13. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Unaudited supplementary schedules

14. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Responsibilities of the accounting officer for the financial statements

15. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA standards of GRAP and the requirements of the MFMA and Dora and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
16. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or there is no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

17. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
18. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.



Introduction and scope

19. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
20. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
21. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2018:

Development priorities	Pages in the annual performance report
KPA 1: basic services and infrastructure development	x – x
KPA 2: local economic development	x – x

22. I performed procedures to determine whether the reported performance information was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
23. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

KPA 1: basic services and infrastructure development

All indicators

24. A comparison between the performance of the year under review and the previous year was not included in the annual performance report for any of the indicators.

Various indicators not verifiable

25. Systems and processes that enable reliable reporting of achievement against the indicators in the table below were not adequately designed. The municipality did not have an adequate record-keeping system to enable reliable reporting on achievement of the indicators listed below.

Indicator description	Planned Target	Reported Achievement
Kl of water distributed through water tankering	108 kl of water distributed by June 2018	139,7 kl of water delivered through water tankering
Number of VIP toilets maintained	10 000 VIP toilets maintained	12 828 VIP toilets were maintained
Number of jobs created through EWP	390 jobs created through EPWP by June 2018	390 jobs created with individual employment contracts signed
Number of cemeteries developed	4 Cemeteries developed by June 2018	Moeka, Bosplaas and Cyrferslui maintained
Number of sports development programs implemented by June 2018	8 Sports development programs implemented by June 2018	8 various sports development programmes held in various wards

KPA 2: local economic development

All indicators

26. A comparison between the performance of the year under review and previous year was not included in the annual performance report for any of the indicators.

Various indicators not well defined and targets not specific, measurable and time bound

27. I was unable to obtain sufficient appropriate audit evidence for the targets in the table below the clearly defined the predetermined nature and required level of performance. This was due to a lack of technical indicator descriptions, proper performance management systems and processes and formal standard operating procedures or documented system descriptions that predetermined how the achievement would be measured, monitored and reported. I was unable to confirm the reported achievement of the indicators by alternative means. I was unable to test whether the target for this indicator was clearly defined by alternative means.

Indicator description	Planned Target	Reported achievement
Bojanala PDM Agri-Park Hub established	Facilitation of the Agri-Park	7 facilitation meetings attended
Number of SMMEs and cooperatives supported	4 SMMEs and cooperatives supported by June 2018	3 SMMEs and cooperatives supported
Number of illegal dumping sites cleaned	100% dumping sites cleaned by end of June 2018.	100% dumping sites cleaned

Various indicators not verifiable

28. Systems and process that enable reliable reporting of achievement against the indicators in the table below were not adequately designed. The municipality did not have an adequate record keeping system to enable reliable reporting on achievement of the indicators listed below.

Indicator description	Planned target	Reported achievement
% of households with access to waste collection services	100% June 2018 (52 084 households) (150 businesses) (100 schools)	Waste collected weekly on all households, business and government institutions
Number of jobs created through municipality's local economic development initiatives including capital projects	3 800 job opportunities created by June 2018	6 689 job opportunities created

Various indicators not reliable

29. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of the targets listed in the table below. This was due to the non-submission of information to support the reported achievement. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report for the indicators listed below:

Indicator description	Planned target	Reported achievement
Number of farmers exposed to various programmes and trainings	250 farmers trained by June 2018	Only 100 farmers trained on animal health
Number of awareness campaigns on the implementation of the Land Use Management Scheme	2 Campaigns per quarter	Campaigns planned for quarter 3 not held.

Feasibility studies undertaken towards a licenced landfill site by 2019-20

30. The reported achievement for target of feasibility studies completed by December 2017 is reported in the annual performance report as achieved. However, the supporting evidence provided indicates that this target was achieved prior to the approval of the annual performance plan for the year under review and therefore did not represent an achievement for the reporting year.

Other matters

31. I draw attention to the matters below.

Achievement of planned targets

32. Refer to the annual performance report on page(s) x to x; x to x for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs [x; x; x] of this report.

Adjustment of material misstatements

33. We identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA 1: basic services and infrastructure development and KPA 2: local economic development. As management subsequently corrected only some of the misstatements, we raised material



findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on audit of compliance with legislation

Introduction and scope

34. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
35. The material findings on compliance with specific matters in key legislation are as follows:

Financial statements

36. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of liabilities and assets identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

37. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
38. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with procurement legislation related to the awarding of tenders.
39. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R7 419 180, as disclosed in note 46 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the fruitless and wasteful expenditure was caused by interest and penalties incurred during the year.
40. Reasonable steps were not taken to prevent unauthorised expenditure of R132 079 448, as disclosed in note 45 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by impairment of assets, which was not budgeted for.

Procurement and contract management

41. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(a) and (c). Similar non-compliance was also reported in the prior year.
42. Sufficient appropriate audit evidence could not be obtained that bid specifications were unbiased and allowed all potential suppliers to offer their goods or services, as required by SCM regulation 27(2)(a).
43. Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM regulation 22(1) and 22(2). Similar non-compliance was also reported in the prior year.



44. Some of the contracts were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.
45. Some of the contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43. Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the key project of the Ngobi Access Road.
46. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations. This non-compliance was identified in the procurement processes for the key project of the Ngobi Access Road.
47. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders that scored the highest points in the evaluation process as required by section 2(1)(f) of Preferential Procurement Policy Framework Act and Preferential Procurement Regulations. This non-compliance was identified in the procurement processes for the key project of the Ngobi Access Road.
48. Some of the construction contracts were awarded to contractors that did not qualify for the contract in accordance with section 18(1) of the CIDB Act and CIDB regulations 17 and 25(7A). This non-compliance was identified in the procurement processes for the construction of high-mast lights in ward 20.
49. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the cleaning of the illegal dumping sites and supply of water through tankering.
50. Awards were made to providers who were in the service of other state institutions or whose directors were in contravention of section 112(j) of the MFMA and SCM regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).

Asset management

51. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.
52. Funds were invested with a mutual bank not registered in terms of the Banks Act, 1990 (Act No. 94 of 1990), in contravention of regulation 6 of the Municipal Investment Regulations.

Performance management

53. The performance management system and related controls were inadequate as it did not describe how the performance monitoring, measurement, review and improvement processes should be conducted and managed, as required by municipal planning and performance management regulation 7(1).

Consequence management

54. All unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) and (b) of the MFMA.

Conditional grants

55. Performance in respect of programmes funded by the municipal infrastructure grant, the water services infrastructure grant, the local government financial management grant and the



expanded public works grant for municipalities was not evaluated, as required by section 12(5) of Dora.

Human resource management

56. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000).

Other information

57. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report thereon and those selected development priorities presented in the annual performance report that have been specifically reported on in the auditor's report.
58. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
59. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
60. If, based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

61. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
62. The municipality has an approved code of professional conduct which is meant to create a culture of good governance and ethical behaviour; however, compliance with this code is not enforced; as a result, the officials generally do not display a sense of urgency, due care and professional competency in the execution of their duties. This is manifest in the nature and type of audit findings reported on financial statements, performance information and compliance with legislation.
63. The accounting officer did not monitor the performance of senior management through a performance assessment process to identify areas of poor performance and to enable implementation of relevant consequences.
64. Municipal officials did not have adequate skills and knowledge required for financial management and reporting, management of performance information and reporting and supply chain management. Management appointed consultants to address the skills gap but a skills transfer did not take place and the performance of consultants was not monitored.
65. Management did not implement proper record keeping of documents to support reported performance information, as a result, material differences were identified between the amounts reported on the annual performance report and the underlying records.



66. Management did not develop and implement a compliance checklist to monitor compliance with legislation, which resulted in significant findings on compliance with laws and regulations.
67. Management did not adequately review the financial and performance reports to confirm the reliability of the reports before their submission to the audit committee and external auditors.
68. Management did not have a policy and standard operating procedures for performance management, individual performance assessments and assessments for acting positions.

Other reports

69. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

Investigations

70. Investigations are currently in progress by the North West Department of Local Government and Human Settlements, the municipal public accounts committee and the financial disciplinary board of the municipality into the investment of funds in VBS Mutual Bank, contrary to the requirements of regulation 6 of the Municipal Investment Regulations.

Auditor - General

Pretoria

30 November 2018



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected development priorities and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in the auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control.
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the municipality’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor’s report. However, future events or conditions may cause a municipality to cease to continue as a going concern.
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and where applicable, related safeguards.